



# Wilson Central School District

## Internal Controls Over Financial Condition

### Report of Examination

Period Covered:

July 1, 2006 — August 8, 2008

2008M-203



Thomas P. DiNapoli

# Table of Contents

	Page
<b>AUTHORITY LETTER</b>	2
<b>INTRODUCTION</b>	3
Background	3
Objective	3
Scope and Methodology	3
Comments of District Officials and Corrective Action	3
<b>FINANCIAL CONDITION</b>	5
Budgeting and Use of Fund Balance	5
Reserve Funds	10
Interest Earned on Reserve Funds	12
Debt Service Fund	13
Recommendations	14
<b>APPENDIX A</b> Response From District Officials	15
<b>APPENDIX B</b> OSC Comments on the District's Response	28
<b>APPENDIX C</b> Audit Methodology and Standards	30
<b>APPENDIX D</b> How to Obtain Additional Copies of the Report	32
<b>APPENDIX E</b> Local Regional Office Listing	33

# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

December 2008

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Wilson Central School District, entitled Internal Controls Over Financial Condition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Wilson Central School District (District) is located in the Towns of Cambria, Lockport, Newfane, Porter and Wilson within Niagara County and covers approximately 144 square miles. The District is governed by the Board of Education (Board) which comprises seven elected members. There are three schools in operation within the District, with 1,468 students and 240 full-time employees. The District's budgeted general fund expenditures for the 2007-08 fiscal year were \$22.5 million, funded primarily with State aid, real property taxes and grants.

The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The Business Administrator plays a key role in the daily administration of the Business Office and has four employees to assist him with these functions.

## Objective

The objective of our audit was to examine the District's financial condition and budgetary practices. Our audit addressed the following related question:

- Does the Board properly manage District finances by ensuring budgets are realistic and supported, and by properly establishing and maintaining reserve funds?

## Scope and Methodology

During this audit, we examined the financial condition of the Wilson Central School District for the period July 1, 2006 to August 8, 2008. For the purposes of trend analysis, we examined financial statements, reserve activity, and budget reports back to the 2002-03 fiscal year.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

## Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with the recommendations and indicated they would take corrective action. OSC comments to issues raised in the District's response can be found in Appendix B.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

## Financial Condition

A school district's financial condition is an indication of its ability to provide educational services to the students within the district. The Board, Superintendent and Business Administrator are accountable to district taxpayers for the use of district resources, and are responsible for effective financial planning and management of district operations. The Board and Superintendent are also responsible for ensuring that budgets are prepared, adopted, and amended based on reasonable estimates of appropriations and revenues. Sound budgeting provides sufficient funding for current operations, and prudent fiscal management includes establishing reserves needed to address long-term obligations or planned future expenditures. Once the Board has addressed those issues, any remaining fund balance (exclusive of the unreserved fund balance the law allows a school district to retain to address cash flow and unexpected occurrences) should be used to reduce the local tax levy.

However, District officials did not prepare reasonable budgets for the 2004-05 through the 2007-08 fiscal years. District officials consistently overestimated expenditures and underestimated revenues – even though data was often available to develop more accurate budget estimates – and made budget transfers far in excess of budgeted amounts disclosed to voters. As a result, the District generated operating surpluses totaling \$7.6 million during this period. District officials put the majority of the \$1.9 million average annual surplus in reserve funds, appropriating only \$250,000 in each of these years<sup>1</sup> to reduce the next year's tax levy. As of June 30, 2007, balances in the District's five reserves in the general fund totaled \$3.8 million; three of these reserves are overfunded and/or were used to pay for costs that did not meet statutory requirements. The District is also holding \$3.2 million in the debt service fund, most of which has no identifiable purpose. With more accurate budgets and better fiscal management practices, real property taxes in the District would likely have been substantially lower. We estimate that about \$2 million in taxes were unnecessarily levied in the 2007-08<sup>2</sup> fiscal year alone.

### **Budgeting and Use of Fund Balance**

The Board is responsible for preparing and presenting the district budget, or spending plan, to the public for vote. In preparing the budget, the Board is responsible for estimating what the district will

<sup>1</sup> The Business Administrator states he intends to appropriate an additional \$250,000 of surplus from the 2007-08 fiscal year to reduce the 2008-09 tax levy before the levy is finalized.

<sup>2</sup> Unaudited financial data

receive in revenue (e.g., State aid), how much fund balance will be available at fiscal year end (some or all of which may be used to fund the ensuing year's appropriations) and, to balance the budget, what the expected tax levy will be. A school district's annual budget must also include reasonable estimates of appropriations required to fund expenditures in the coming year. Accurate estimates help ensure that the levy of real property taxes is not greater than necessary.

There are three components of a school district's fund balance. Aside from the reserve for encumbrances (money already committed for goods and services not yet received and paid for), the reserved portion of fund balance represents moneys that the District may only use for specific purposes, as authorized by statute. Unreserved fund balance is uncommitted and therefore may be used ("appropriated") to fund the ensuing year's expenditures, thereby reducing the tax levy. The portion of the unreserved fund balance that the District retains, which can be used for cash flow purposes and unanticipated expenditures, is referred to as unreserved, unappropriated fund balance. Real Property Tax Law limits the amount of unreserved, unappropriated fund balance to no more than 4 percent<sup>3</sup> of the current year's budget. Any fund balance over this percentage, must be used either to reduce the tax levy (appropriated) or to fund legally established reserves.

We found that, while the District maintained its unreserved, unappropriated fund balance at a level that complied with statute, the District did not properly estimate appropriations and revenues. The annual results of operations show a recurring trend of overestimating appropriations and underestimating revenues. The District has ended the last several<sup>4</sup> fiscal years with significant operating surpluses. Since the 2004-05 fiscal year, the District has generated surpluses totaling approximately \$7.6 million. This equates to an average operating surplus of approximately \$1.9 million in each of the last four fiscal years. During this same four-year period, the tax levy increased by \$771,480 or approximately 9 percent (average of 2.25 percent per year). The District's operating surplus averaged about 21 percent of the tax levy in each of these years and student enrollment in this four-year period remained virtually unchanged.

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<sup>3</sup> The limit is 3 percent of the 2007-08 school year budget at June 30, 2007 and increases to 4 percent of the 2008-09 budget at June 30, 2008 and for years thereafter.

<sup>4</sup> Fiscal years 2004-05 through 2007-08

<b>Fiscal Year</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08<sup>5</sup></b>	<b>Average</b>
<b>Beginning Fund Balance</b>	<b>\$5,847,223</b>	<b>\$4,819,347</b>	<b>\$6,807,362</b>	<b>\$4,721,202</b>	
Revenues	\$19,189,089	\$20,849,447	\$22,062,281	\$22,500,997	
Expenditures	\$17,027,254	\$18,845,223	\$20,636,131	\$20,454,901	
<b>Operating Surplus (Deficit)</b>	<b>\$2,161,835</b>	<b>\$2,004,224</b>	<b>\$1,426,150</b>	<b>\$2,046,096</b>	<b>\$1,909,576</b>
Less: Transfers	\$3,189,711	\$16,209	\$3,512,310	\$10,182	
Change in Fund Balance	(\$1,027,876)	\$1,988,015	(\$2,086,160)	\$2,035,914	
Reserved Fund Balance	\$3,785,472	\$6,197,735	\$3,798,980	\$5,244,589	
Unreserved, Appropriated Fund Balance	\$250,000	\$250,000	\$250,000	\$500,000 <sup>6</sup>	
Unreserved, Unappropriated Fund Balance <sup>7</sup>	\$783,875	\$359,627	\$672,222	\$1,012,527	
<b>Total Year End Fund Balance</b>	<b>\$4,819,347</b>	<b>\$6,807,362</b>	<b>\$4,721,202</b>	<b>\$6,757,116</b>	
Tax Levy	\$8,769,446	\$8,994,717	\$9,489,418	\$9,540,926	
Surplus as a percentage of Tax Levy	24.7%	22.3%	15.0%	21.4%	20.9%

Expenditures – We analyzed expenditures over the last four<sup>8</sup> fiscal years and found District officials consistently overestimated appropriations by a total of approximately \$4.1 million during this period. For example, the program for children with disabilities has been overestimated by an average of \$373,000 (16 percent more than actual expenditures) each year. Expenditures for this program have never exceeded \$1.9 million in any of the last four fiscal years. However, appropriations for this purpose in the 2008-09 fiscal year budget are \$2.6 million. The Business Administrator said he uses BEDS<sup>9</sup> enrollment figures for students in out-of-district placements and uses prior year appropriations (instead of previous years' actual expenditures) to estimate appropriations. He also indicated that he generally budgets for a larger amount than necessary to account for the possibility of new special needs children who may move into the District. However, while certain participation levels may be difficult to anticipate, the majority of the program's costs relate to teachers' salaries and tuition. Therefore, District officials have sufficient data to more accurately estimate this program's costs.

The District also consistently overestimates salary appropriations. District officials indicated that they budget for all salaries of the District in the general and cafeteria funds without taking into account Federal grants that will be received in the special aid fund. The District has received an average of \$580,000 in grant funds each

<sup>5</sup> Unaudited financial data

<sup>6</sup> Adjusted appropriated fund balance for the 2008-09 fiscal year

<sup>7</sup> For 2008-09, limited to 4 percent of current year appropriations

<sup>8</sup> 2004-05 through 2007-08

<sup>9</sup> Basic Educational Data System (BEDS) – Enrollment counts typically taken on the first Wednesday in October

year, and it uses special aid fund monies, rather than general fund monies, to pay for certain District salaries. However, the District still budgets to pay these same salaries out of the general fund. Therefore, District officials have overestimated total salaries by an average of \$461,000 each year. If anticipated grant funds were considered and appropriations properly reflected in the special aid fund, the District could provide a more accurate budget estimate each year and not levy real property taxes in the general fund to pay for salaries which will in all likelihood be covered by grant moneys.

In a final example, the District has overestimated hospital and medical insurance appropriations by approximately \$283,000 each year. Insurance rate increases are determined before the budget is prepared. Therefore, the District should make reasonable estimates for the subsequent fiscal year. District officials indicated that they must account for potential year-end assessments and therefore must build this possibility into their budgetary estimates. However, the health insurance consortium that the District participates in has only recently required an assessment from the District. Both of these assessments were less than \$116,000. The 2008-09 budget appropriation for hospital and medical insurance is approximately 25 percent greater than actual 2007-08 expenditures, even though premium rates are increasing between 5 and 9 percent for the 2008-09 fiscal year.

Revenues – Our analysis also showed that the District sometimes underestimated certain revenues in its budget. For example, the District underestimated the BOCES aid it receives. On average, the District has underestimated this revenue by approximately \$134,000 each year. During the four-year period, revenues were underestimated by a total of approximately \$3.7 million.

Use of Fund Balance – The combination of overestimating appropriations and underestimating revenues resulted in operating surpluses averaging \$1.9 million in each year during this period. An operating surplus increases the total year-end fund balance. District officials have the discretion to reserve, appropriate or retain (up to the statutory limit) portions of this fund balance in a manner that best serves the interests of District taxpayers. Although District budgeting practices have produced consistent surpluses, District officials have elected to appropriate the same relatively small amount (\$250,000) of fund balance each year<sup>10</sup> to reduce the following year's tax levy. Further, because surpluses are built into the budget, appropriated fund balance is never actually used to finance operations; instead, it becomes part of the following year's operating surplus.

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<sup>10</sup> Since at least the 2001-02 fiscal year

For example, the District will have an operating surplus of approximately \$2 million for the 2007-08 fiscal year. Since the District is legally limited to an unreserved, unappropriated fund balance of no greater than 4 percent of 2008-09 appropriations, the District can increase the existing unreserved, unappropriated fund balance by only \$258,000. Of the remaining \$1.7 million of surplus funds at June 30, 2008, \$250,000 (only 13 percent of the surplus funds) was appropriated to reduce the tax levy for following year; the Business Administrator told us that he does intend to increase this amount to \$500,000 before the tax levy is finalized. The District used the remaining operating surplus to increase the capital reserve by \$1.2 million.

School district budgets that are presented to voters can include estimates for appropriations for transfers of general fund monies to other funds during the fiscal year. However, District officials' estimates of such transfers were very inaccurate. In the 2006-07 fiscal year, in which \$3.5 million was transferred from the general fund to the capital projects fund, the total appropriation for transfers to other funds, as put before the voters, was only \$38,000. As a result, actual transfers exceeded the budget by over \$3.4 million. Since the 2004-05 fiscal year, the District has transferred approximately \$6 million into the capital projects fund but has budgeted transfers of only \$150,000. The Business Administrator told us that most of the operating surplus is used to fund the capital reserve, which eventually is used for voter-approved capital projects. He also indicated that District officials generally budget in order to have surplus funds available to use for various capital projects.

Budgeting and levying taxes to arrive at surpluses, and then using the resulting surpluses to increase capital reserves does not provide adequate accountability to taxpayers for how their resources are used. A more transparent and appropriate method of funding capital projects would be to estimate overall appropriations more accurately and include a specific budgetary appropriation for the intended purpose – in this case, the amount to increase the capital reserve. By including an accurate estimate of the amount the Board intends to set aside in the capital reserve at the time the budget is presented to the electorate, District officials can provide voters the opportunity to decide whether they concur with this use of their tax money. The District's approach solicits voter approval on the funding of a capital project after the District has already set aside taxpayers' money in a capital reserve that resides in the District's bank accounts.

## Reserve Funds

Reserve funds may be established by Board action, pursuant to various laws, and are used to finance specific purposes. The statutes pursuant to which the reserves are established determine how the reserves may be funded, expended or discontinued. Generally, school districts are not limited as to how much money they can maintain in reserves. However, school districts should maintain reserve balances that are reasonable. To do otherwise, that is, funding reserves at greater than reasonable levels, essentially results in making real property tax levies higher than necessary.

At June 30, 2007, the District had five<sup>11</sup> reserves in the general fund with a cumulative balance of \$3.8 million. We analyzed these reserve funds for reasonableness and adherence to statutory requirements and identified three that do not have a reasonable balance and/or had expenditures charged to them that did not meet legal requirements. These excess reserved funds could be transferred to other legally established reserves, as applicable, or used to reduce the tax levy. We also found that the District is not adhering to statutory requirements to separately account for and allocate interest earned to each reserve.

Employee Benefit Accrued Liability Reserve (EBALR) – An EBALR fund may be created under General Municipal Law (GML). Moneys from this reserve may only be used to make cash payments of the monetary value of accrued or accumulated but unused sick leave, holiday leave, vacation leave, etc., due to employees upon separation of service. Interest earned on money in the fund becomes part of the reserve. Should the Board determine that the fund is no longer needed, the moneys in the fund may be transferred to certain reserve funds authorized by law.

The District properly established an EBALR in October 2002, and provided additional amounts over time, increasing the balance to its June 30, 2008 total of slightly over \$1 million. The District has relied upon a compensated absences calculation as a basis for determining the proper balance for this reserve. However, the District has inappropriately assumed that retirement incentives could be charged to this reserve. The amount of compensated absences on the District's schedule that could be funded from the reserve totals only \$535,000. Consequently, the District has overfunded the EBALR by approximately \$560,000. Subsequent to our fieldwork, District officials transferred approximately \$448,000 from the EBALR to a newly-established sixth reserve, the Retirement Contribution

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<sup>11</sup> Since the conclusion of our audit, a sixth reserve has been established, the Retirement Contribution Reserve. District officials provided additional information regarding this reserve at the exit discussion.

Reserve. As a result of this transfer, the current EBALR reserve balance is approximately \$647,000.

In addition, expenditures that have been charged to this reserve were not in conformance with GML requirements. Retirement incentives were paid from this reserve to former employees. We determined that for the last two fiscal years, District officials inappropriately paid about \$111,000 from this reserve for retirement incentives.

Retirement Contribution Reserve – As described above, the \$448,000 held in this new reserve are moneys previously held in the EBALR. GML restricts the use of this reserve for payments to the New York State and Local Retirement System. The District's payments to ERS averaged only about \$185,000 per year.<sup>12</sup> Further, the District budgets for these costs in the general fund, and therefore levies real property taxes to fund them. The District's intent for establishing this reserve was to address annual rate fluctuations for retirement contributions. However, it should be noted that the New York State and Local Retirement System provides contribution rates to local governments and school districts well in advance of their annual budget preparations. As such, the District is in the position of ensuring that sufficient appropriations are included in the budget to fund its annual contributions. Consequently, the District has not demonstrated that the amount retained is necessary and reasonable.

Insurance Reserve – This type of reserve is established to fund certain uninsured losses, claims, actions, or judgments for which a district is authorized or required to purchase insurance. GML does not permit payments for insurance premiums or health insurance assessments from an insurance reserve. The District established an insurance reserve in April 1995 by Board resolution. At June 30, 2008, this reserve had a balance of approximately \$600,000. In the last two fiscal years, the District inappropriately used this reserve to pay insurance premiums of about \$258,000 and a health insurance assessment of about \$111,000, for total expenditures of approximately \$369,000.

The Business Administrator indicated that the District will return the health insurance assessment<sup>13</sup> to the reserve to comply with statute. As a result, the balance in this reserve will increase to almost \$711,000. It is unclear whether the Board will identify a purpose, in compliance with statutory requirements, to continue to hold such a substantial balance in this reserve. If the Board decides to discontinue this reserve, GML authorizes the transfer of insurance reserve moneys only to another reserve, subject to certain limitations.

<sup>12</sup> Fiscal years 2003-04 through 2006-07

<sup>13</sup> The health insurance assessment expenditure for June 2007 was \$111,220.

Unemployment Reserve – This type of reserve is used to fund payments made when a district elects to reimburse the State Unemployment Insurance Fund for actual claims filed. The District established this reserve in November 1993 through Board resolution. At June 30, 2008, the balance in this reserve was approximately \$323,000. We analyzed expenditures made from this fund and found all payments were in agreement with GML requirements. We also analyzed the reasonableness of the current balance. The average annual amount charged to this reserve has been approximately \$15,000 over the last six years. Based upon this level of cost, the District has approximately 21 years worth of unemployment payments remaining in this reserve. The District also budgets for these expenditures in the general fund, and therefore levies taxes to fund them. Funds from this reserve are not appropriated as a funding source in the annual budget.

The Business Administrator agreed with this assessment and stated that he plans to reduce this balance to a more reasonable amount. To do this, the Board must include this reserve as a funding source when preparing its annual budget. GML allows excess funds in this reserve to be transferred to other legal reserves or transferred to unreserved fund balance and used to reduce real property taxes.

Capital Reserves – Education Law authorizes the establishment of reserves by Board action, subject to approval by District voters, to accumulate resources for capital projects. The District's capital reserves at June 30, 2008 totaled \$1.7 million. (Since the conclusion of our fieldwork, the District has added over \$1.2 million of surplus funds from the 2007-08 fiscal year to the capital reserves which brings the current balance to \$2.9 million.) Our review of the establishment and use of the District's capital reserves disclosed that District officials used the capital reserves in an appropriate manner.

Workers Compensation Reserve – This type of reserve is established to pay compensation benefits and other expenses when a district elects to be self-insured for this purpose. The District properly established this reserve through board resolution in November 1993. At June 30, 2008, the balance in this reserve was approximately \$129,000. Over the last five fiscal years, average expenditures from this reserve have been approximately \$79,000 per year. We found the current balance and annual expenditures to be reasonable and in compliance with GML requirements.

#### **Interest Earned on Reserve Funds**

GML requires that any interest earned or capital gains realized from the investment of reserve funds must accrue to and become part of each reserve fund. While it is permissible for the District to invest

moneys from reserve funds together with general fund moneys, the separate identity of the sources of the moneys invested must be maintained and a pro rata share of the interest earned must be credited to the reserve fund. However, the District recorded all of the interest earned in the general fund rather than apportioning it to each of the reserve funds. When we informed District officials about this error, they promptly distributed the approximately \$113,000 of interest earned during the 2007-08 fiscal year among the five reserve funds. However, interest earnings for prior years have not been properly accounted for or allocated to the individual reserves. We estimate that the District has not properly credited approximately \$421,000 to the reserve funds in the previous two fiscal years alone. This considerable amount of revenue is also contributing to the substantial operating surpluses in the general fund.

### **Debt Service Fund**

The District accounts for and reports a debt service fund, which is separate from the general fund. In October 2002, the Board approved the establishment of a debt service reserve fund but did not specify in the resolution the intended purpose or expected use for this reserve. In 2002, District officials transferred \$2 million from the general fund to the debt service fund. The balance has subsequently increased to approximately \$3.2 million from interest earnings and additional transfers. No expenditures have been made from this fund, as debt service payments have been budgeted for and made from the general fund. There was no indication that the District met the specific legal criteria<sup>14</sup> requiring the setting aside of moneys in such a reserve. As such, all monies in the debt service fund which do not meet statutory requirements should be transferred to unreserved fund balance in the general fund and used to reduce real property taxes.

The District's budgetary practices have consistently resulted in operating surpluses that District officials have used to increase various reserve funds. In addition, the majority of the funds held in reserves were transferred from the general fund without disclosure in the budget that this was the intended purpose. The District is also holding \$3.2 million in the debt service fund, the majority of which has no identifiable purpose. This lack of transparency to the public has resulted in a significant accumulation of resources. Had these practices not occurred, real property taxes would likely have been lower during this four-year period, because the Board would have been required to comply with the statutory limits for fund balance and appropriate more surplus to reduce the tax levy.

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<sup>14</sup> Specific statutory provisions require the establishment of a reserve for debt service. For example, unexpended bond proceeds must be reserved for the payment of debt service related to those bonds.

## Recommendations

1. District officials should review current budgeting procedures and provide the most accurate representation of projected appropriations and revenues based upon all information available at the time the budget is developed.
2. District officials should include an accurate budget appropriation for the amount the Board intends to transfer to reserves and other funds.
3. The Board should reduce the balances in the Employee Benefit Accrued Liability and Unemployment Reserves to levels that are necessary and reasonable, and reflect realistic future expenditure needs.
4. The Board should eliminate the Insurance Reserve unless a valid need is identified.
5. District officials should continue to account for and credit interest earned to each separate reserve fund.
6. The District should transfer all moneys which do not meet statutory requirements from the debt service fund to the general fund.
7. The Board should ensure that fund balance is appropriated to reduce the property tax levy and comply with statutory requirements regarding the amount of fund balance that can remain at year end.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following pages.

# **WILSON CENTRAL SCHOOL DISTRICT**

412 LAKE STREET  
P.O. BOX 648  
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Page 1 of 12

November 26, 2008

Robert E. Meller, Chief Examiner  
Office of the State Comptroller  
295 Main Street, Room 1050  
Buffalo, NY 14203-2510

Dear Mr. Meller and Wilson District Taxpayers:

On behalf of the District, I would first like to thank the staff of the Comptroller's office. We found the staff to be courteous, professional, and knowledgeable. We also found the process to be necessary and a valuable learning tool for the management of the District as well as the governing Board. To the extent that the Comptroller's audit represented a review of the District's operations, practices, and policies for statutory and regulatory compliance, the District generally agrees with the findings of the Comptroller and its recommendations concerning those findings.

The report also includes several conclusions that appear to represent subjective policy statements by the Comptroller relating to the District's financial management. These editorial remarks question the District's budgeting practices and fund balance management. While respectfully acknowledging the Comptroller's perspective in this regard, the District and its elected Board of Education firmly believe that the District's approach to financial management is consistent with its legal authority and its fiduciary responsibility to district taxpayers. It's also important to note that the report does not suggest any financial improprieties with respect to the District's budgeting practices, fund balance management, or general business operations.

Our response will be broken into three parts. The first part will deal with the more subjective views of the Comptroller concerning the District's financial management practices. In this section we will describe the District's approach and methodology employed to manage the long term financial stability and cost efficiencies that allow the District to minimize the tax burden over a period of years given the District's educational objectives established to best serve its children. The second part will address specific findings and comments made in the Comptroller's report for which the District will offer a contrary view. The third part of the report will address the Comptroller's recommendations, and provide a preliminary response on which the final corrective action plan will be formulated. Questions concerning our response can be directed to Dr. Michael S. Wendt, Superintendent of Schools, at 716-751-9341, extension 120.

## **PART I**

Throughout the audit report the Comptroller suggests from a policy standpoint that the District's budgets are to a certain degree overfunded and therefore property taxes are higher than they would otherwise be. The District strongly disagrees with this perspective. Doing business in highly and increasingly regulated environment, the District is acting prudently to protect taxpayers against widely fluctuating tax rates while preserving the integrity of the education program they are entrusted to deliver to its children. As noted, at no time has the Comptroller suggested any financial irregularity or a loss of District funds. Nonetheless, the District does wish to explain the rationale for its fiscal approach, identify the manner in which this approach advances the fiscal integrity and stability of the District, and promotes the best interests of the District's taxpayers.

See  
Note 1  
Page 28

First, the District manages its resources with two primary objectives: deliver the level and quality of education expected by our taxpaying community for their children; and do so at the least possible cost over a period of years. Accomplishing this objective requires a long term approach to the financial management of the District's resources. The District generally employs a 5 year approach when evaluating its financial condition to maintain an environment conducive to achieving District educational goals. These goals are reviewed each year by the District's management team to align them with the District's mission and the vision of the Board of Education.

Nearly every facet of education in New York State is regulated, from labor-management relationships, class sizes, special education services, and student transportation to outside services like capital improvement projects and trash pickup. Most expenditures are mandated, and the district does not have discretionary authority to control many of these expenses. Funding, however, is always at risk. From state aid to federal aid, our funding remains contingent upon economic conditions well outside the auspices of District control.

See  
Note 2  
Page 28

Special education services, for example, can be particularly problematic from a financial perspective. Special services are extremely costly and District's are often caught off guard when students unexpectedly enroll or new classifications occur in the District after budgets are set. The cost of placements for individual students can exceed \$50,000 depending on the students IEP, a written document prescribing specific programs that have the force of law. These additional costs are often not related to District salaries and benefits; they most commonly relate to the cost of required outside programs that the District cannot offer. Students placed in outside programs do not free up enough in-district resources to enable the District to reduce in-district spending. For example, if the District is required to place three additional students in non-district programs, these placements will reduce average case loads by less than .25 students per teacher. Consequently, the placement to an outside program offers no savings opportunities to the District to offset the additional cost.

The District also relies upon Federal funding for many of its programs. This funding is not established until September, nearly six months after the budget is adopted by the Board of Education. Federal funding has declined in each of the preceding 5 years, and we expect this trend to continue. The District's largest revenue source, state aid, is also not immune to changes and reductions after budgets are set. The state's absence of rainy day funds and reserves means that shortfalls in the state's budget trickle down to municipalities and districts. In fact, according to a November 12, 2008 press release<sup>1</sup>, Governor Patterson announced an expected revenue shortfall of \$14 billion for New York State through the end of the next fiscal year. The Governor's plan in response to the State's fiscal crisis reduces current year aid to the Wilson Central School District by more than \$460,000. The District's prudent long term financial management practices will reduce the negative impact a crisis of this magnitude will ultimately have on the children we serve and the taxpayers who underwrite the cost of our educational programs.

Because of the utter lack of control the Districts have on these factors, the general fund budget is required to plan in a largely unpredictable environment. Therefore additional budgetary precautions are taken to ensure that the District is able to continue at least through the current year without taking drastic measures that would jeopardize the integrity of the District's mission, goals, and educational objectives. The District safeguards itself by providing additional appropriations for non-salary outside placements for special education services, and by reducing salaries and benefits by the amount of federal aid only after the aid is received.

A central but subordinate goal of these safeguards is the funding of capital improvements. The District owns over 300,000 square feet of buildings on approximately 75 acres of land. Just like your home,

<sup>1</sup> [http://publications.budget.state.ny.us/budgetFP/SpecialSessionProposals/press\\_release08\\_1112.html](http://publications.budget.state.ny.us/budgetFP/SpecialSessionProposals/press_release08_1112.html)

these buildings depreciate over time. Roofs wear out, pavement deteriorates, and furnaces break. The District is required by state law to conduct periodic building conditions surveys and maintain a 5 year capital plan to identify these needs. As part of its financial planning process, the District estimates the ongoing cost of upkeep and renovations. Based on factors including current cost estimates, the estimated life of improvements, and state aid, the District estimates that the cost to the local taxpayer is approximately \$1.2 million per year.

Because of the way in which building aid is paid by New York State, there is an incentive for Districts to save this money in advance and use it as a down payment toward project costs. Much like buying a house, the down payment allows the District to borrow less and pay less interest, yet aid is received as if the District paid interest on the full project amount. This occurs because aid is paid on what's known as an assumed amortization. Simply stated, aid is paid on the entire debt payment (principal and interest) under the assumption that the full amount of project cost was borrowed. The following table is a simplified portrayal of the most recent capital project, and illustrates the advantage of leveraging these down payments managed in the District's capital reserve.

	Capital Project Funding		
	Capital Reserve	No Capital Reserve	Savings
Capital Reserve	\$4,000,000.00	\$0	
Cost of Debt	4,855,826.74	10,792,932.04	
Total Cost	8,855,826.74	10,792,932.04	
State Aid	7,603,409.85	7,603,409.85	
Net Cost to Taxpayer	1,252,416.89	3,189,522.19	<b>1,937,105.30</b>

As you can see from the table, by investing \$4,000,000 at the beginning of the project, the District saves nearly \$2 million. The District uses the capital reserve to offset debt and significantly reduces the project cost to the local taxpayer. If the District had not been able to utilize the capital reserve, the additional \$1.94 million cost would have to come directly from the taxpaying residents of the District through the levy of higher taxes.

See  
Note 3  
Page 28

The surplus funds that remain at the end of each year, which are due in large part to federal aid and special education appropriations, are used to fund the capital reserve to the extent available. This obligation is subordinate to the district's current education program in the following way: if federal funding is not received or additional special education students consume the appropriations made for that purpose, the funding of these obligations will take priority over the transfer to the capital reserve.

The Comptroller suggests that this method lacks transparency and recommends that the District should make the budgetary appropriation directly to capital reserve transfer; however, the District would then be prohibited from using this appropriation for its priority purpose which is to cover a shortage of federal funding and additional needs in special education services. It is also important to recognize that the manner in which the District has transferred monies to the capital reserve is fully consistent with the terms of the voters' authorization for the establishment and operation of the reserve fund and fully compliant with the laws of New York State. The alleged lack of transparency is also not supported as transfers to the capital reserve and discussions regarding the underlying rationale occur at public meetings subject to open meetings law and are further documented in board meeting minutes and the District's adopted Reserve Management Guidelines, a copy of which is attached hereto as exhibit R-B.

See  
Note 4  
Page 28

At the end of each year and prior to establishing the tax levy, the District evaluates its current reserves and general fund surpluses over the preceding five years. To the extent that the surpluses exceed the District's requirements according to its adopted guidelines, the appropriated fund balance is adjusted. The appropriated fund balance is the amount of surplus available that is used to offset the tax levy in the subsequent year. Prior to establishing the 2008-9 tax levy, the District increased the appropriated fund balance to \$500,000 from \$250,000, and consequently raised the tax levy by less than 1%.

We believe that the District's fiscal management presented herein is sound and supported by the laws of New York State and the Regulations of the Commissioner. The District is clearly acting prudently and responsibly for the benefit of its taxpayers and children to whom we are accountable.

## **PART II**

This section of the response addresses specific comments and sections of the Comptroller's report. Headings will be used to refer the reader to the source of the Comptroller's remarks contained in the report.

### Financial Condition

The Comptroller's written report under the Financial Condition heading states that "We estimate that about \$2 million in taxes were unnecessarily levied in the 2007-08 fiscal year alone". This position is not supported by analysis. The actual surplus for 2007-08 was \$1.7 million. This surplus was used to cover the District's estimated annual \$1.2 million required contribution to the capital reserve. The remainder was used to fund other reserves pursuant to adopted guidelines and further offset the subsequent year tax levy by an additional \$250,000.

More importantly, the statement "unnecessarily levied" falsely implies that the District is overtaxing. We shared the savings analysis with the representatives from the Comptroller's office to demonstrate that proper utilization of the capital reserve provides tax savings to the taxpayers of the District. While they acknowledge the savings, they point out that the taxpayers may not be around long enough to receive the benefit. This notion however ignores the tax impact of previous capital projects which have reduced the rates they are paying currently; it also does not properly recognize that most of our residents are long term residents. While we respect the Comptroller's view as expressed by his representatives, we find it contrary to the District's objective of minimizing long term tax rates since the District's failure to anticipate the cost of capital projects would ultimately increase taxes for the Wilson taxpayer.

See  
Note 3  
Page 28

### Use of Fund Balance (1)

The report notes that the "The District will have an operating surplus of approximately \$2 million". The actual result was \$1.7 million and was allocated as described above.

### Use of Fund Balance (2)

The report notes that during 2006-07 the District budgeted \$38,000 for fund transfers, yet the District transferred \$3.5 million to the capital fund. This is due to a Commissioner's ruling that requires the transfer from the general fund to the capital fund in the same year that a capital project is approved by the voters. Because voter approval on a capital project always occurs after the general fund budget is adopted for the year during which the project goes to vote, it isn't practical to provide an appropriation in the general fund budget. Even if the capital project vote occurs on the same day as the budget vote, the Commissioner's ruling requires that the capital fund transfer occur before (June 30<sup>th</sup>) the general fund budget goes into effect (July 1<sup>st</sup>). Furthermore, the transfer is publicized by the District in the newsletter mailed to residents, a public notice in the local newspapers, and it's discussed at the public hearing. Because the Comptroller's position is contrary to the position held by the Commissioner, we believe that

See  
Note 4  
Page 28

this issue should be resolved in a discussion between the offices of the Comptroller and the Commissioner. All instances where actual transfers were significantly more than budgeted transfers are due to this ruling by the Commissioner.

### Retirement Contribution Reserve

The audit report states that the District fails to “demonstrate that the amount [of reserve] retained is reasonable and necessary” for its Employee Retirement Contribution Reserve. The District respectfully disagrees with this characterization. In a letter from the Comptroller’s office in September 2007<sup>2</sup>, the Office of the Comptroller states that public employers should expect a long term contributory rate of 11%. The contributory rate is the percentage of salaries that we are required to pay to the Employees’ Retirement System, or ERS. The letter also warns that “in the 1990’s and early in this decade, employer contributions were unusually low due to exceptional Fund performance.” The letter further states that “when the stock market does well, the increase in investment income reduces the amount employers are required to pay to the Retirement System. Conversely, when the rate of return falls short of projections, employer contributions will go up.” The stock market has been devastated this year and the ERS has lost over \$30 Billion dollars in value. A copy of the Comptroller’s September 2007 letter is included with our response for the readers’ reference as appendix R-C.

See  
Note 5  
Page 29

Our reserve is based on the Comptroller’s estimate of a long term 11 percent contributory rate. Looking back over a ten year period, the District found that the average contributory rate was less than 5 percent. We then calculated what rates would need to be over the next 10 years in order to reach the long term average of 11% as predicted by the Comptroller. Based on the Comptroller’s estimate, we anticipate that rates would need to average more than 17% for the next 10 years<sup>3</sup>. The District then took a more conservative approach and estimated the amount of reserve required in order to budget the ERS expense at 11% of salaries for a period of 5 years under conditions where the contributory rate was increased to 15% (a full two percentage points less than the Comptroller’s estimate would suggest based on our 10 year historic review). The result is the amount currently reserved in our Employees’ Retirement Contribution Fund.

Perhaps more compelling is the Comptroller’s public remarks in a rare midyear update of the retirement fund’s performance. Comptroller Thomas DiNapoli reported on October 28, 2008 that the fund lost 20% of its total value since the close of the prior fiscal year just seven months earlier<sup>4</sup> amounting to more than a \$30 billion loss in value. Since rates are established through fiscal year 2010, we anticipate dramatic increases in the contributory rate that the District will not be able to absorb through the reserve fund alone.

The Comptroller report implies that because ERS rates are known before the budget is developed, the necessary appropriations can be made. This notion is counterintuitive because reserves are not established for the sole purpose of managing unknown expenses; reserves are established to manage certain expenditures that are authorized by statute that can be volatile and cause wide fluctuations in the tax levy. The fact that rates are known in advance does nothing to prevent wide swings; in fact, between fiscal years 2002-03 and 2003-04 the ERS contributory rate increased from .36% to 2.52% resulting in a seven-fold increase in the appropriation for the ERS payment due that year. The fact that the District knew in advance did nothing to soften the blow to the taxpayers.

### **Part III**

<sup>2</sup> Murray, Kevin F.; Employees’ Retirement System Final Contribution Rates for February 1, 2009; Office of the New York State Comptroller; September, 2007

<sup>3</sup> Table of values is provided in the attached appendix R-A

<sup>4</sup> Precious, Tom; State Pension Fund takes a hit on Wall St.; The Buffalo News; October 29, 2008

This section of the response addresses the Comptroller's findings and recommendations as they relate to compliance issues. In general the District agrees with the Comptroller's compliance findings, and has taken or will take proper measures to remediate these issues. For example, the EBLAR fund has been reduced due to the Comptroller's finding that retirement incentives to which employees are entitled cannot be reserved into or paid from the EBLAR fund. The Comptroller has also found that the opinion from the District's legal counsel at the time the debt service reserve fund was established was incorrect, and that the statutory criteria to establish the fund were not met. Consequently, this fund will be liquidated to the extent that the funds are not mandated by statute. The report also notes that interest earnings on reserves have not been credited to the reserve accounts from which the interest was earned. The District has implemented changes to comply with this requirement, and we are pleased to report that we are in full compliance for 2007-08 and going forward. Lastly, the insurance reserve will be re-evaluated to determine the proper funding and allowable expenditures in compliance with the general municipal law and the insurance laws of New York State.

## CONCLUSION

The Wilson Central School District is pleased with the overall results of the Comptroller's examination. Our District was reviewed for regulatory compliance in the areas of purchasing, payroll, inventory management, internal controls, cash receipts and disbursements, accounting, and financial management. There were no findings of financial irregularity or improper expenditure of District funds. Throughout this experience, we found the representatives to be courteous and helpful, and we will use the audit as a learning experience to provide even more accountability to our taxpayers.

While respectfully acknowledging that the Comptroller has, from a policy perspective, taken issue with certain aspects of the District's fiscal approach, the District maintains that its primary financial objective is to minimize the cost of delivering a high quality education to our children over a period time encompassing several years. The District's current budgeting practice and management of its fund balance and reserves is conducted in furtherance of this objective and has resulted in savings to the taxpayers.

Due in part to our long term financial perspective, we continue to be recognized by Business 1<sup>st</sup> Magazine as the number one District in Niagara County. The annual review conducted by Business 1<sup>st</sup> considers both cost effectiveness and educational accomplishments. The District continues to excel in both areas, and this success is due in large part to the District's view that the pursuit of long term management objectives is necessary and constitutes a fiduciary responsibility to the taxpayers and students of the District.

Respectfully Submitted,



Dr. Michael S. Wendt  
Superintendent of Schools

## APPENDIX R-A

<u>Fiscal Year</u>	<u>Actual ERC*</u>	<u>Value of Fund</u>	<u>Estimated Required ERC</u>	<u>Value of Fund</u>
		1,000,000.00		1,000,000.00
2000-01	0.43%	1,004,300.00	11%	1,110,000.00
2001-02	0.36%	1,007,915.48	11%	1,232,100.00
2002-03	0.36%	1,011,543.98	11%	1,367,631.00
2003-04	2.52%	1,037,034.88	11%	1,518,070.41
2004-05	5.63%	1,095,419.95	11%	1,685,058.16
2005-06	7.97%	1,182,724.92	11%	1,870,414.55
2006-07	9.20%	1,291,535.61	11%	2,076,160.15
2007-08	8.50%	1,401,316.14	11%	2,304,537.77
2008-9	7.90%	1,512,020.11	11%	2,558,036.92
2009-10	6.90%	1,616,349.50	11%	2,839,420.99
Average actual required contribution during this period was 4.98 percent.				

<u>Fiscal Year</u>	<u>Actual ERC</u>	<u>Value of Fund</u>	<u>Estimated Required ERC</u>	<u>Value of Fund</u>
		1,616,349.50		2,839,420.99
2010-11	17.44%	1,898,160.03	11%	3,151,757.29
2011-12	17.44%	2,229,104.24	11%	3,498,450.60
2012-13	17.44%	2,617,748.56	11%	3,883,280.16
2013-14	17.44%	3,074,153.02	11%	4,310,440.98
2014-15	17.44%	3,610,131.60	11%	4,784,589.49
2015-16	17.44%	4,239,558.05	11%	5,310,894.33
2016-17	17.44%	4,978,724.99	11%	5,895,092.71
2017-18	17.44%	5,846,765.69	11%	6,543,552.91
2018-19	17.44%	6,866,149.29	11%	7,263,343.73
2019-20	17.44%	8,063,262.42	11%	8,062,311.54
Average ERC required to achieve a long term estimated ERC of 11 percent.				

\*ERC – Employer Required Contribution

## APPENDIX R-B

**RESERVE FUND MANAGEMENT GUIDELINES****CAPITAL RESERVE**

**Rationale** – The Capital Reserve is established for the purpose of constructing and renovating the district's fixed assets including buildings, HVAC equipment, plumbing, electrical, and site improvements. Because capital projects typically occur and are paid during a one year period, the funding for the local share of these expenditures can be prohibitive. Therefore, the law allows districts the opportunity to "save" for this expense over a period of years.

**Funding** – the need for capital reserve funding is calculated using two different methods found on the attached analysis. The actual method examines the cost of capital project over the prior 10 year period, while the cost method assesses the local cost based on square footage and cost per square foot. Based on current conditions, the annual contribution to the capital reserve should be between 1 and 1.2 million contingent upon the availability of funds at year end. In order to maintain acceptable building conditions and safety, this reserve should receive the highest priority.

**EMPLOYEE BENEFIT LIABILITY RESERVE**

**Rationale** – the Employee Benefit Liability Reserve Fund is established for the payment of accrued leave time including sick and vacation accruals due to an employee upon separation from the district. Because the District generally doesn't know when separation will occur, it is difficult to budget for this expense since the budget is typically established 15 months or more prior to the employee's separation. Therefore this reserve allows the District to pay this expense without an advanced budgetary appropriation.

**Funding** – the value of the accrued leave is calculated each year and is included in the audited financial statements of the District. The calculation is known as Compensated Absences, and the Board of Education should strive to achieve a balance in this reserve account that is approximately equal to this amount.

**WORKERS COMPENSATION RESERVE**

**Rationale** – workers' compensation reserve is established as a savings account against the potential significant costs associated with employees who are injured in the workplace. During this time, it is often necessary to continue to pay salary and benefits to the injured employee as well as the expense for a substitute employee serving in the injured employee's capacity while on leave. It is also common for employees to receive permanent workers' compensation benefits for life. The District is self insured, and therefore responsible for the full cost of the benefits.

**Funding** – the value of current claimants is estimated by an actuary employed by the District's workers compensation plan administrator and represents the current value of future benefits estimated for current claimants. This amount does not include a value for future claimants who may have cause against the District. This value is also the amount the District would be required to pay

should the District change plan administrators. The District should strive to reserve an amount equal to this actuarial estimate.

### **UNEMPLOYMENT RESERVE**

**Rationale** – like the workers' compensation reserve, this fund is set aside as a savings account for potential claims under NYS unemployment. These expenses can be rather significant during periods of economic distress requiring the layoff of staff. The District is also self insured for the payment of unemployment benefits. In addition to layoffs, it is also common for employees to apply for and receive benefits if they are dismissed for disciplinary reasons or voluntary separation. The cases are difficult to defend and most often lead to an award.

**Funding** – the Board of Education should strive to achieve a balance in this reserve of approximately the average of the previous five years of unemployment expenditures.

### **RETIREMENT CONTRIBUTION RESERVE**

**Rationale** - General Municipal Law § 6-r authorizes the establishment of a Retirement Contribution Reserve Fund for the purpose of financing retirement contributions made to the NYS Local Employees' Retirement System. Since the balance of the NYS Retirement fund is affected by the returns in financial markets, the required contributions can vary widely from year to year, with increases of more than 100%. The long-term contributory rate estimated by the Comptroller's office is 11% in order to keep the fund solvent. This reserve account allows the District to appropriate an amount equal to 11% while allowing the reserve account to fund the amount in excess of 11%, thereby attenuating the affect on the tax rate.

**Funding** – the Board of Education should strive to have a minimum funding requirement for this reserve equal to a five year depletion period at a 15% contributory rate applied to the subsequent year's budgeted salaries.

## APPENDIX R-C



Office of the New York State Comptroller  
Thomas P. DiNapoli  
New York State and Local Retirement System  
Employees' Retirement System  
Police and Fire Retirement System  
110 State Street, Albany, New York 12244-0001

Kevin F. Murray, Deputy Comptroller  
Telephone: 1-866-805-0990 or 518-474-7736

Fax: 518-402-4433  
Web: [www.osc.state.ny.us/retire](http://www.osc.state.ny.us/retire)

September, 2007

Re: Employees' Retirement System  
Final Contribution Rates for  
February 1, 2009 Payment

Dear Employer:

Once a year, as a participating employer, you are billed for your share of the annual cost of paying for the future benefits of your employees. Because we want to provide you with as clear a picture as possible about how your contribution rates are determined, we have made several changes to this annual letter, based upon the comments and suggestions many of you have made.

The following summarizes these changes, and provides you with some insight into the process used to determine contribution rates:

- **The regular pension rate and the group term life insurance rate have been combined into one rate.** Previously you were required to calculate both the regular pension cost and the group term life insurance cost.
- **Last year's contribution rates and the long-term expected contribution rates are now included for your information.**

What do we mean when we refer to the long-term expected contribution rates? Long-term expected contribution rates are those rates that would be established if the Retirement System's Common Retirement Fund (the Fund) consistently earned an 8% rate of return annually.<sup>1</sup> So, if the Fund averages more than 8% over an extended period of time, you should expect your contribution rate to be less than the long-term

<sup>1</sup> The System Actuary assumes an 8% annual rate of return on investments when calculating funding requirements.

September, 2007  
Page 2

expected rate. If the Fund earns less than 8% over an extended period of time, your contribution rate would be higher than the long-term expected rate. It is important to note that the long-term expected rate for most Tier 3 and 4 members is 11% of payroll (11.1% if you have elected Section 41-j, the sick leave benefit). This is the plan most of your employees are enrolled in and the plan almost all new members will be covered by. In most cases, on a long-term basis, employers should expect to pay 11% of their payroll to the Retirement System yearly, as long as investment results average 8% annually.

In the 1990's and early in this decade, employer contributions were unusually low due to exceptional Fund performance. In 2004-05, when the Fund's return fell short of its target, employer contribution rates increased, returning close to their expected annual levels. More recently, because the Fund's rate of return has exceeded the expected 8%, employer rates have declined; in fact, the contribution rates for the fiscal year 2009 represent the fourth decrease in four years.

Reducing employer contribution rate volatility is an issue we continue to address but, ultimately, the Common Retirement Fund's rate of return will continue to have a significant impact on employer contribution levels. When the stock market does well, the increase in investment income reduces the amount employers are required to pay to the Retirement System. Conversely, when the rate of return falls short of projections, employer contributions will go up.

The good news for employers is that the Retirement System is fully funded and, with recent investment results exceeding 8% annually, employer rates for fiscal year ending 2009 are well below the long-term expected rates. In fact, the 2009 rates are approximately 10% lower than the 2008 rates.

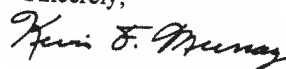
Enclosed are the rates for fiscal year 2009 (highlighted in tan), the rates for 2008 (highlighted in blue) and the long-term expected rates (highlighted in green). In addition, enclosed is a worksheet you can use with the 2009 rates to calculate and budget for the amount due as of February 1, 2009, or the discounted amount due December 15, 2008. If you chose to amortize any previous years' payments, your calculation should include any amortization repayment amount. Using the February 2008 estimate sent to you several weeks ago, you can confirm your plans and options to find the appropriate 2009 contribution rates.

September, 2007  
Page 3

On or before October 15, 2007, we will furnish you with our projection of the amount of your required contribution due February 1, 2009. This projection will also provide the required contribution amount due should you decide to prepay by December 15, 2008.

If you have any questions regarding the rates or any of the above information, please contact Michael J. Clenahan, Assistant Director, Member and Employer Services, at 518-473-4132 or, by email, at [mclenahan@osc.state.ny.us](mailto:mclenahan@osc.state.ny.us). If you prefer to contact our Billing Unit directly, the telephone number is 518-474-7573. You can also visit our website at [www.osc.state.ny.us/retire](http://www.osc.state.ny.us/retire) for additional information about rates.

Sincerely,



Kevin F. Murray

Enclosures

## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

We maintain that the District does not adopt realistic budgets as evidenced by the consistent operating surpluses that ranged from \$1.4 to \$2.1 million annually, with an average of approximately \$1.9 million. Total general fund expenditures have been approximately \$19 million. As such, operating surpluses were approximately 10 percent of expenditures. Furthermore, statute provides that districts may maintain up to 4 percent of the current year's appropriations in surplus funds, which in the District's case would be approximately \$930,000 for the 2008-09 school year. These surplus funds are intended to be used to address unexpected occurrences such as those mentioned in the District's response.

#### Note 2

This assessment of the District's role in controlling expenditures and the unreliable nature of State and Federal aid is misleading. While certain aspects of providing educational services, such as special education, are required, the cost of providing educational services is generally within a predictable range from which to set a reasonably accurate appropriation amount. While cyclical economic conditions do influence the distribution of aid to school districts, a significant widespread negative impact on aid is not the norm. In fact, the State has increased aid, often by significant amounts, during periods of fiscal prosperity, as it has the last few years.

#### Note 3

The District states that using a \$4 million down payment and financing for 10 years instead of 15 years saved \$1.9 million. However, this computation was done using an assumed higher interest rate for the 15 year financing, and does not take into consideration the present value of savings that will occur 10 to 15 years in the future. Generally, the State provides building aid using an assumed amortization schedule, ranging from 15 to 30 years, and a statewide average interest rate, without regard to the school district's method of financing, amortization schedule or rate of interest on any borrowing. As such, it is generally in the best interest of local taxpayers for the District to structure its financing to mirror the State's reimbursement schedule. In addition, the District has a high building aid ratio, so most of the cost of capital improvements is borne by the State.

#### Note 4

The District's method of using certain budgeting practices to generate significant surpluses that are used to fund the capital reserve is not transparent. A more appropriate and transparent method would be to estimate overall appropriations more accurately and include a specific budgetary appropriation for the intended purpose – in this case, the amount to increase the capital reserve. We compared budgeted to actual transfers to illustrate and quantify what occurred. The District is using this as an opportunity to focus exclusively on approvals to spend reserve moneys (moneys that were already set aside without adequate public disclosure) and to provide reasons why budget variances occurred.

The District should have included an appropriation to transfer monies to the capital projects fund that would be subject to subsequent voter approval.

#### Note 5

The District indicates that it uses the Comptroller's estimated long-term contribution rate of 11 percent to establish the annual amount it will levy taxes to fund. The reserve will then be used for amounts billed in excess of that 11 percent rate. However, its funding goal contradicts that rationale, since it strives to have sufficient funding for a five-year depletion period at 15 percent of budgeted salaries. As such, the District would be in a position to not need to budget anything, not even at the 11 percent rate, for the entire five-year period because so much taxpayer money was already accumulated for payments to the New York State and Local Retirement System.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected financial condition for further audit testing. To accomplish the objective of this audit, we performed the following audit procedures:

- We reviewed audited financial statements and budget to actual reports to analyze changes in fund balance as a result of annual operations. We also examined the components of fund balance for adherence to statute.
- We identified and analyzed specific budget lines with significant budget to actual variances.
- We analyzed the activity in the District's five reserve funds. Specifically, we evaluated if expenditures complied with legal statutes, if balances appeared reasonable, and if interest earnings were properly credited. We also examined Board resolutions to determine if each reserve was properly established.
- We examined the compensated absence calculation as it relates to the Employee Benefit Accrued Liability Reserve.
- We reviewed activity between the general, capital projects and debt service funds.
- We also examined the tax levy increases/decreases from 2004-05 thru 2008-09 and any adjustments made to the estimated tax levy included in the voter approved budget.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **APPENDIX D**

### **HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT**

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